

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

December 28, 2004

In Reply Refer To:
New York Independent System Operator, Inc.
Docket No. ER05-119-000

Hunton & Williams LLP
Attn: Michael E. Haddad, Esq.
Counsel for New York Independent System Operator, Inc.
1900 K Street, N.W., Suite 1200
Washington, DC 20006

Dear Mr. Haddad:

1. The Commission accepts rate schedule and tariff revisions submitted by New York Independent System Operator, Inc. (NYISO) to extend for one year the current methodology and rate used to calculate annual payments for Voltage Support Service (VSS), effective January 1, 2005, as requested. This letter order benefits customers by helping ensure reliability in the New York Control Area.
2. NYISO's Rate Schedule 2 of its Services Tariff addresses payments made by NYISO to qualified Suppliers of VSS for their reactive power at a single cost-based calculation rate of \$3,919/MVAr per year, paid monthly.¹ NYISO proposes no change in the current rate and requests waiver of section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13 (2004), since NYISO has previously submitted cost support for that rate.²
3. Over the past year, NYISO explains that it has been working with its market participants on a number of possible enhancements to the current VSS rate methodology, to improve NYISO's ability to measure and track suppliers' performance. For example, NYISO is considering rule changes to better account for the range of control that different generators can provide regarding their leading and lagging capability. NYISO also is considering changing the current formula for VSS payments from gross to net

¹ See NYISO Services Tariff, Rate Schedule 2, section 2.

² See NYISO's filing in Docket No. ER02-617-000 (December 27, 2001).

reactive capability; that is, the reactive power actually delivered to the transmission system. NYISO states that switching to a net capability methodology would be more consistent with NYISO's measurement of real power contributions. NYISO states it has committed to report to its market participants on the cost impacts, testing and scope of these enhancements by the end of the first quarter of 2005 and, if warranted, to file tariff revisions to implement changes as early as mid-2005.

4. Notice of NYISO's filing was published in the *Federal Register*, 69 Fed. Reg. 65, 422 (2004), with comments, protests and interventions due on or before November 19, 2004. No protests were filed.

5. While supporting the proposed extension of the pre-existing VSS rate, AES urges the Commission to direct NYISO to submit a tariff filing in April 2005 to implement enhancements to its VSS structure. AES states that NYISO's own studies³ show that voltage support issues on the New York system are becoming more critical and must be addressed.

6. The Commission accepts NYISO's proposed rate schedule and tariff revisions. In recognition of the importance of adequate voltage support on the New York system, however, the Commission directs the NYISO to file with the Commission an informational report by April 31, 2005 to keep the Commission up-to-date on either its plans to implement VSS enhancements or the reasons it does not plan make changes.

By direction of the Commission.

Linda Mitry,
Deputy Secretary.

³ See New York Independent System Operator, Inc., September 23, 2004 Operating Committee Meeting Materials, "Operations Reactive Studies."